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Missouri's Future and the Defense/National Security Sector

Need. Congressmen Ike Skelton and Todd Akin, both members of the House Armed Services Committee, said recently that Missouri is the fifth largest supplier of goods and services to the Department of Defense. These statements reflect the capture of federal dollars by Missouri activities and are dominated by large contractors and Missouri's military installations. However the State does not understand the fundamental basis for its successful competition for those dollars. NDIA believes that two factors underlie both the competition to bring in federal dollars and the reinvestment of those captured federal dollars within Missouri. Factor one is the robust defense-related small business supply chain, a legacy of the aerospace heritage of St Louis. Factor two is the technical workforce sustained by Missouri educational institutions. Although Missouri is currently doing well, the "Need" is that of missed opportunities that could be achieved under a coordinated state strategy of large business, small business, educational institutions and military installations. This becomes especially acute as the Defense budget is reduced and competition for these dollars becomes more intense.

Significance. Defense Secretary Robert Gates has fired warning shots at the size of the defense budget and has taken some preliminary steps:

- Acquisition personnel conversions
- Elimination and consolidation of cyber security organizations
- Cancellation of major weapons systems programs
- Closing of major commands (Joint Forces Command)

And the US Congress has passed acquisition reform legislation to include:

- Acquisition workforce reform
- Bundling work in mega-contracts
- The squeeze on and consolidation of mid-tier defense contractors

If Missouri and its defense supply chains are not working in a coordinated effort, the State faces limited growth in the defense markets and relies on the individual successes of the top-tier defense contractors such as Boeing. Missouri has two risk factors first that 5.5% of the Gross State Product (GSP) or about $13 billion should be protected and second avoiding being shut out in competition by potential "bundling" of work into mega-contacts for a greater share of the 97% of the defense spending that Missouri does not capture today.

Scope Data. By Missouri Economic Research and Information Center's (MERIC) analysis Missouri garners $13 billion of defense contracts which means $6.3 billion in wages over 147,000 jobs[1]. A 2006 report by PBS shows Missouri lagging well behind California, Virginia,

[1] "The Economic Impact of Department of Defense Contracts in Missouri" November 2009. MERIC

and Texas in a middle pack of 8 states[2]. Nationally DoD spends $425 billion and the only Missouri-headquartered entity in the top 200 providers is Midwest Research Institute.[3] Missouri is capturing 3% of the defense spending which looks good against having 1.7% of the nation's population, but the State could achieve more.

Best practices. The States with the highest capture are California with $28 billion, Virginia with $23B and Texas with $21B. Efforts like that of the Virginia legislation in creating the Virginia National Defense Industrial Authority are worthy of study and emulation[4]. And in Texas the comptroller focuses on the defense industries celebrating their value to the state[5].

Proposed actions.

- Identify the military economic impact on Missouri ala the Kansas Governor's report[6]
- Expand the Missouri Military Preparedness and Enhancement Commission's (MMPEC) mission to cover economic impact and development
- Participate in federal studies about achieving investment parity among small business categories (small disabled veteran firms, women-owned firms …)
- Support the Missouri workforce advantage by continuing and expanding the technical workforce pipeline in K12 science, technology, engineering and mathematics (STEM) education to include:
    - Devise tactics to retain graduates within particular technology fields
    - Promote continuing STEM education in the defense industry
    - Work businesses, with special emphasis on small business, to provide college internships and cooperative education programs within the defense industrial base to facilitate future hiring and retention of Missouri brain power
- Assist the federal government in providing security clearances to Missouri businesses and workers
- Use tools such as Federal Procurement Data System - Next Generation[7] (FPDN) to break apart the data rolled up under the North American Industry Codes (NAICS) in the State's analysis of the defense business activities
- Encourage Small Business Administration studies on NAICS and small business size standards[8]
- Continue state actions to improve intellectual property protection
- Work with in-state federal organizations to serve as and enhance existing Small Business Innovative Research programs (SBIR/STTR) reporting and touch points at the military

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[2] "Politics and Economy" PBS report 1/26/06 http://www.pbs.org/now/politics/defensemap06.html#mo

[3] "Top 200 Contractors" Government Executive August 15, 2007 http://www.govexec.com/features/0807-15/0807-15s2s1.htm

[4] http://www.vndia.org/

[5] http://www.window.state.tx.us/comptrol/fnotes/fn0808/

[6] http://governor.ks.gov/issues-a-initiatives/military-and-veterans/542-governors-military-council

[7] https://www.fpds.gov/fpdsng_cms/index.php

[8] http://www.ndia.org/Advocacy/PolicyPublicationsResources/Documents/2010-Top-Issues-Final-to-the-Printer.pdf

and NGA installations. Missouri researchers ought to be in contact with federal/military sponsors in the State as a first choice.

- Seriously consider generous tax credits to start up and grow small and medium size businesses in the defense supply chain.

Resources/Costs.

- Conducting the study of the military economic impact on the Missouri Economy has been proposed by Missouri University of Science and Technology Assoc. Professor of Economics Michael Davis at less than $40,000.
- Assigning MMPEC new duties is costless; their competent execution of those duties would have to be studied and may result in tasking to MERIC or University of Missouri Economic & Policy Analysis Research Center (EPARC).
- Participation in federal studies would be an advisory role so costs are minimal
- The STEM pipeline investments are consistent with requests already pending and championed by the Department of Higher Education[9].
- Assisting the federal government in providing clearances would require new investment in facility security officers to provide some regional coverage and investigators.
- Use of FPDN and better understanding of the small-business defense supply chain would have to be estimated by MERIC, EPARC but represents essentially studies and development of protocols for data understanding. This should be a modest expense.

Benefits/Measures. The primary benefit to Missouri by taking action is to increase its share of the federal defense outlays. This should continue to be measured both in real dollars and as a percentage of the GSP. Establishing a goal in the range of 8-10% of GSP from defense businesses seems appropriate and scopes the benefit at $19 to $24 billion annual.

The second benefit is the increase in the number of small businesses in the defense supply chain[10]. Although this could be measured in raw numbers, a more informative measurement is the average increase in jobs, wages, and profits as well as the success rate of defense related business start ups. Missouri could increase the number of firms in primarily STEM fields (NAICS 54) from the current estimate of 56,000.

The third benefit is the return on investment for supporting STEM education and this should be measured by the gross populations of STEM workforce, the populations of STEM professionals in the workforce[11]and their wages. With more than 124 thousand employed state-wide in STEM (NAICS code 54) employed now setting a goal of 160 – 180 thousand jobs scopes the benefit. In St Louis County the average annual wage for STEM workers is $64K[12] and setting a goal of $70K would still make Missouri companies a national bargain[13].

[9] http://www.dhe.mo.gov/ifc.html
[10] http://www.sba.gov/advo/research/profiles/
[11] http://www.missourieconomy.org/industry/qcew/default.aspx
[12] http://www.missourieconomy.org/pdfs/QCEW05m_w.pdf
[13] http://www.bls.gov/oes/current/oessrci.htm